

CITY OF KINGSFORD
AUDITED FINANCIAL STATEMENTS
KINGSFORD, MICHIGAN

Fiscal Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Kingsford	County Dickinson
Audit Date 6/30/04	Opinion Date 9/17/04	Date Accountant Report Submitted to State: 11/16/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

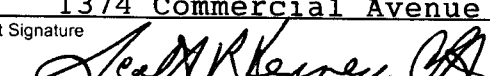
Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Avenue		City Crystal Falls	State MI
Accountant Signature 		ZIP 49920	Date 11/16/04

TABLE OF CONTENTS

	Page
Independent Auditor's Report	4
Management's Discussion and Analysis	6
 <u>FINANCIAL STATEMENTS</u>	
Government Wide Statement of Net Assets	10
Government Wide Statement of Activities	11
Governmental Funds Balance Sheet	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.	13
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Proprietary Funds Statement of Net Assets	16
Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets	17
Proprietary Funds Statement of Cash Flows	18
Fiduciary Funds - Statement of Net Assets	19
Fiduciary Funds - Statement of Changes in Net Assets	20
Component Unit - Statement of Net Assets	21
Component Unit - Statement of Revenues, Expenses and Changes in Net Assets	22
Component Unit - Statement of Cash Flows	23
Notes to Financial Statements	24
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedules:	
General Fund	42
Major Street Fund	43
Small Cities Grant Loan Repayment Fund	44
MERS Pension Funding and Statistics	45
Police and Firemen's Pension Funding and Statistics	46

TABLE OF CONTENTS (CONTINUED)

ADDITIONAL INFORMATION

Combining Balance Sheet - Non-Major Governmental Funds.	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Fund.	49
Balance Sheet - Water Utility Fund.	50
Statement of Revenues, Expenses and Changes in Retained Earnings - Actual and Budget - Water Utility Fund	51
Statement of Cash Flows - Water Utility Fund	52
Budgetary Comparison Schedules:	
Land Sales, Purchase and Development Fund.	53
Local Street Fund.	54
1998 Public Works Debt Service Fund	55
Equipment and Capital Improvement Fund	56
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting.	57

SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Kingsford
Kingsford, Michigan 49802

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kingsford, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

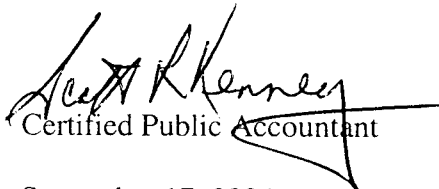
As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kingsford, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

September 17, 2004

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets increased 0.3% from a year ago - increasing from \$12.686 million to \$12.724 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$188,000 during the year (2.0% decrease). This is attributed to an increase in retiree health benefit costs, several street upgrade and construction projects, and a decrease in State Revenue Sharing Payments. In addition, a fire occurred at City Hall on June 2, 2004. The costs incurred to date have been insured and we expect that additional costs incurred will also be insured. A City Hall renovation is being planned in conjunction with the repairs of the fire damage in forthcoming fiscal periods. The business-type activities experienced a \$226,000 increase in net assets, primarily as a result of increased sewer charges designated for future system upgrades and expansion. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current Assets	\$ 3,574	\$ 3,632	\$ 1,156	\$ 1,485	\$ 4,730	\$ 5,117
Noncurrent Assets	<u>8,557</u>	<u>8,867</u>	<u>3,001</u>	<u>3,195</u>	<u>12,558</u>	<u>12,062</u>
Total Assets	\$12,131	\$ 12,499	\$ 4,157	\$ 4,680	\$16,288	\$17,179
Long-Term Debt Outstanding	\$ 2,656	\$ 2,734	\$ 521	\$ 526	\$ 3,177	\$ 3,260
Other Liabilities	<u>287</u>	<u>389</u>	<u>100</u>	<u>844</u>	<u>387</u>	<u>1,233</u>
Total Liabilities	<u>\$ 2,943</u>	<u>\$ 3,123</u>	<u>\$ 621</u>	<u>\$ 1,370</u>	<u>\$ 3,564</u>	<u>\$ 4,493</u>
Net Assets						
Invested in Capital Assets-Net of Debt	\$ 6,342	\$ 6,293	\$ 2,178	\$ 2,311	\$ 8,520	\$ 8,604
Restricted	7	1	544	358	551	359
Unrestricted	<u>2,839</u>	<u>3,082</u>	<u>814</u>	<u>641</u>	<u>3,653</u>	<u>3,723</u>
Total Net Assets	\$ 9,188	\$ 9,376	\$ 3,536	\$ 3,310	\$12,724	\$12,686

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$243,000 for the governmental activities. This represents a decrease of approximately 7.9%. The current level of unrestricted net assets for our governmental activities stands at \$2.839 million, or about 73.67% of expenditures.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues						
Charges for Services	\$ 95		\$ 701		\$ 796	
Operating Grants and Contributions	528		0		528	
Capital Grants and Contributions	0		0		0	
General Revenues						
Property Taxes	\$ 2,042		\$ 0		\$ 2,042	
State-Shared Revenues	671	N	0	N	671	N
Unrestricted Investment Earnings	451	O	53	O	504	O
Fines and forfeitures	21	T	0	T	21	T
Reimbursements and other	132		0		132	
Sale of land	49		0		49	
Transfers and Other Revenue	<u>0</u>		<u>0</u>		<u>0</u>	
Total Revenues	\$ 3,989		\$ 754		\$ 4,743	
Program Expenses		A		A		A
General Government	\$ 582	V	\$ 0	V	\$ 582	V
Public Safety	1,315	A	0	A	1,315	A
Public Works	1,585	I	0	I	1,585	I
Insurance and Benefits	249	L	0	L	249	L
Recreation & Culture	100	A	0	A	100	A
Other	288	B	0	B	288	B
Interest on Long-Term Debt	58	L	0	L	58	L
Water & Sewer	<u>0</u>	E	<u>528</u>	E	<u>528</u>	E
Total Expenses	\$ <u>4,177</u>		\$ <u>528</u>		\$ <u>4,705</u>	
Change in Net Assets	\$ (188)		\$ 226		\$ 38	

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

The City's net assets continue to remain healthy. Some new businesses have located in the City of Kingsford and new home construction continued at a steady pace this past year.

Governmental Activities

The City's total governmental revenues increased by approximately \$134,000 due to the insurance reimbursement received for fire losses and the increase in interest and rental income attributable to additional rentals received for the use of equipment on street projects.

Cash expenditures increased by nearly \$268,000 during the year. This was primarily due to the street projects undertaken and other capital outlay.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents through the Iron Mountain-Kingsford Sewage Treatment Authority. The Water Fund revenues increased slightly due to very dry conditions. The expenses in the Water Fund decreased due to the cost controls that have been implemented and a lower than normal level of repairs to the water system. This resulted in a lowering of the net operating loss by approximately \$36,000. The Sewer Fund revenues increased due to a charge increase that has been designated primarily for future system upgrades and expansion. Expenses decreased dramatically in the Sewer Fund due to the drop in professional engineering services required in the 2003-2004 fiscal year. This resulted in an increase in net operating income of more than \$63,000.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2003-2004 include the General Fund, Major Street Fund, Small Cities Grant Loan Repayment Fund, Water Fund and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

General Fund Budgetary Highlights

Over the course of the year, the City Board amended the budget to take into account events during the year. The most significant revenue changes were in State Shared Revenues which was decreased by \$12,000 due to a drop in payments from the State of Michigan and Interest which was decreased by \$7,000 because of continued decline in interest rates. Various expenditure categories were adjusted by amounts aggregating a like amount resulting in no change to the original net budget.

Capital Asset and Debt Administration

At the end of 2004, the City had more than \$12,600,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings and water and sewer lines. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2004 fiscal year exceeded \$6,100,000. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2004-2005 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

As discussed above, the City will be outlaying funds to repair and renovate the City hall during the forthcoming fiscal year. The costs and insurance reimbursement amounts have not yet been determined.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF KINGSFORD
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2004

		PRIMARY GOVERNMENT			COMPONENT UNIT
ASSETS		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
CURRENT ASSETS					
Cash and equivalents	\$	2,700,208	\$ 1,030,116	\$ 3,730,324	\$ 93,725
Receivables - net		748,244	102,262	850,506	2,241
Investments		0	0	0	287,675
Prepaid expenses		0	0	0	10,826
Internal balances		125,436	24,321	149,757	2,034
TOTAL CURRENT ASSETS		\$ 3,573,888	\$ 1,156,699	\$ 4,730,587	\$ 396,501
RESTRICTED ASSETS - Cash and equivalents					
	\$	7,399	\$ 301,835	\$ 309,234	\$ 0
NON-CURRENT ASSETS					
Property and equipment, net of depreciation	\$	8,550,051	\$ 2,699,007	\$ 11,249,058	\$ 1,120,719
TOTAL ASSETS		\$ 12,131,338	\$ 4,157,541	\$ 16,288,879	\$ 1,517,220
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	\$	54,902	\$ 6,412	\$ 61,314	\$ 6,757
Accrued and other liabilities		192,114	93,711	285,825	39,601
Interprogram payables		0	0	0	2,034
Current part of non-current liabilities		40,000	5,000	45,000	0
TOTAL CURRENT LIABILITIES		\$ 287,016	\$ 105,123	\$ 392,139	\$ 48,392
LIABILITIES PAYABLE FROM RESTRICTED ASSETS					
	\$	0	\$ 43,392	\$ 43,392	\$ 0
NON-CURRENT LIABILITIES					
Compensated absences	\$	167,624	\$ 0	\$ 167,624	\$ 18,727
Bonds payable		2,207,600	0	2,207,600	0
Revenue bonds payable		0	472,608	472,608	0
Unfunded accrued actuarial pension liability		280,668	0	280,668	0
TOTAL NON-CURRENT LIABILITIES		\$ 2,655,892	\$ 472,608	\$ 3,128,500	\$ 18,727
TOTAL LIABILITIES		\$ 2,942,908	\$ 621,123	\$ 3,564,031	\$ 67,119
NET ASSETS					
Invested in capital assets, net of related debt	\$	6,342,451	\$ 2,178,007	\$ 8,520,458	\$ 1,120,719
Restricted for					
Forfeitures		7,399	0	7,399	0
Repair and reconstruction		0	544,157	544,157	0
Unrestricted		2,838,580	814,254	3,652,834	329,382
TOTAL NET ASSETS		\$ 9,188,430	\$ 3,536,418	\$ 12,724,848	\$ 1,450,101

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Governmental Activities				
General government	\$ 582,152	\$ 0	\$ 0	\$ 0
Public safety	1,314,843	0	0	0
Public works	1,584,822	94,872	528,413	0
Insurance	248,877	0	0	0
Recreation and culture	99,549	0	0	0
Other	288,130	0	0	0
Interest on long-term debt	58,423	0	0	0
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>4,176,795</u>	\$ <u>94,872</u>	\$ <u>528,413</u>	\$ <u>0</u>
Business-Type Activities				
Water	\$ 480,737	\$ 406,180	\$ 0	\$ 0
Sewer	47,016	294,363	0	0
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>527,753</u>	\$ <u>700,543</u>	\$ <u>0</u>	\$ <u>0</u>
Component Unit - Kingsford Housing Commission	\$ <u>438,644</u>	\$ <u>159,587</u>	\$ <u>209,176</u>	\$ <u>0</u>

GENERAL REVENUES

Property taxes
State shared revenues and grants
Unrestricted investments earnings
Fines and forfeitures
Reimbursements
Other
SPECIAL ITEM-Gain (loss) on sale of land
TRANSFERS

TOTAL GENERAL REVENUES AND SPECIAL ITEMS

CHANGE IN NET ASSETS

Net assets - beginning

NET ASSETS - ENDING

The Notes to Financial Statements are an integral part of this statement.

NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
\$ (582,152)		\$ (582,152)	
(1,314,843)		(1,314,843)	
(961,537)		(961,537)	
(248,877)		(248,877)	
(99,549)		(99,549)	
(288,130)		(288,130)	
(58,423)		(58,423)	
\$ (3,553,510)		\$ (3,553,510)	
	\$ (74,557)	\$ (74,557)	
	247,347	247,347	
	\$ 172,790	\$ 172,790	
			\$ (69,881)
\$ 2,041,523	\$ 0	\$ 2,041,523	\$ 0
671,123	0	671,123	0
451,143	53,693	504,836	6,796
20,547	0	20,547	0
69,277	0	69,277	0
63,035	0	63,035	6,946
49,016	0	49,016	(181)
0	0	0	0
\$ 3,365,664	\$ 53,693	\$ 3,419,357	\$ 13,561
\$ (187,846)	\$ 226,483	\$ 38,637	\$ (56,320)
9,376,276	3,309,935	12,686,211	1,506,421
\$ 9,188,430	\$ 3,536,418	\$ 12,724,848	\$ 1,450,101

CITY OF KINGSFORD
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2004

	<u>GENERAL FUND</u>	<u>MAJOR STREET FUND</u>	<u>SMALL CITIES GRANT LOAN REPAYMENT FUND</u>
ASSETS			
Cash and equivalents	\$ 1,983,810	\$ 312,955	\$ 258,243
Taxes receivable - net	0	0	0
Accounts/notes receivable	54,984	0	522,784
Due from other funds	125,436	0	0
Due from other governmental units	91,481	56,164	0
Restricted assets	<u>7,399</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>2,263,110</u>	\$ <u>369,119</u>	\$ <u>781,027</u>
LIABILITIES			
Accounts payable	\$ 46,016	\$ 969	\$ 383
Accrued payroll expense	80,596	1,967	0
Due to other funds	24,321	40,689	0
Deferred revenue	<u>0</u>	<u>0</u>	<u>522,784</u>
TOTAL LIABILITIES	\$ 150,933	\$ 43,625	\$ 523,167
FUND BALANCES			
Reserved for Forfeitures	\$ 7,399	\$ 0	\$ 0
Unreserved	<u>2,104,778</u>	<u>325,494</u>	<u>257,860</u>
TOTAL FUND EQUITY	\$ <u>2,112,177</u>	\$ <u>325,494</u>	\$ <u>257,860</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>2,263,110</u>	\$ <u>369,119</u>	\$ <u>781,027</u>

The Notes to Financial Statements are an integral part of this statement.

NON-MAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
-----------------------------------	--------------------------------

\$ 145,200	\$ 2,700,208
0	0
0	577,768
0	125,436
22,831	170,476
0	7,399

\$ <u>168,031</u>	\$ <u>3,581,287</u>
-------------------	---------------------

\$ 7,534	\$ 54,902
3,113	85,676
41,428	106,438
0	522,784

\$ 52,075	\$ 769,800
-----------	------------

\$ 0	\$ 7,399
<u>115,956</u>	<u>2,804,088</u>

\$ <u>115,956</u>	\$ <u>2,811,487</u>
-------------------	---------------------

\$ <u>168,031</u>	\$ <u>3,581,287</u>
-------------------	---------------------

CITY OF KINGSFORD
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balance - total governmental funds	\$ 2,811,487
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	8,550,051
Long term liabilities:	
Bonds not due and payable within the current period and not reported in the funds	(2,247,600)
Accumulated employee vacation and personal pay not used in current period	(167,624)
Unfunded accrued actuarial pension liability not payable in the current period	(280,668)
Eliminate deferred income recognition of notes receivable	<u>522,784</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>9,188,430</u></u>

CITY OF KINGSFORD
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2004

	GENERAL FUND	MAJOR STREET FUND	SMALL CITIES GRANT LOAN REPAYMENT FUND
REVENUES			
Property taxes	\$ 1,897,842	\$ 0	\$ 0
Federal grants	7,560	0	0
State shared revenues and grants	671,123	386,515	0
Licenses and permits	157	0	0
Fines and forfeitures	20,547	0	0
Charges for services	94,872	0	0
Interest and rentals	413,680	4,369	30,300
Sale of property and supplies	42,516	0	0
Reimbursements	69,277	0	0
Other	5,997	0	56,489
TOTAL REVENUES	\$ 3,223,571	\$ 390,884	\$ 86,789
EXPENDITURES			
Current			
General government	\$ 483,373	\$ 0	\$ 4,972
Public safety	1,301,363	0	0
Public works	867,941	227,218	0
Recreation	99,549	0	0
Insurance and benefits	248,877	0	0
Other	401	0	0
Capital outlay	0	108,907	0
Debt service	0	0	0
TOTAL EXPENDITURES	\$ 3,001,504	\$ 336,125	\$ 4,972
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 222,067	\$ 54,759	\$ 81,817
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 0	\$ 0	\$ 0
Transfers (out)	(175,106)	0	0
TOTAL OTHER FINANCING SOURCES (USES)	\$ (175,106)	\$ 0	\$ 0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 46,961	\$ 54,759	\$ 81,817
Fund balance - beginning	2,065,216	270,735	176,043
FUND BALANCE - JUNE 30	\$ 2,112,177	\$ 325,494	\$ 257,860

The Notes to Financial Statements are an integral part of this statement.

	NON-MAJOR GOVERNMENTAL FUND		TOTAL GOVERNMENTAL FUNDS
\$	143,681	\$	2,041,523
	0		7,560
	134,338		1,191,976
	0		157
	0		20,547
	0		94,872
	2,794		451,143
	6,500		49,016
	0		69,277
	392		62,878
\$	287,705	\$	3,988,949
\$	1,440	\$	489,785
	0		1,301,363
	184,212		1,279,371
	0		99,549
	0		248,877
	0		401
	182,293		291,200
	143,423		143,423
\$	511,368	\$	3,853,969
\$	(223,663)	\$	134,980
\$	175,106	\$	175,106
	0		(175,106)
\$	175,106	\$	0
\$	(48,557)	\$	134,980
	164,513		2,676,507
\$	115,956	\$	2,811,487

CITY OF KINGSFORD
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Net change in fund balance - total governmental funds	\$ 134,980
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	(120,098)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	85,000
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	(7,061)
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(280,668)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>(187,846)</u></u>

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and equivalents	\$ 995,550	\$ 34,566	\$ 1,030,116
Accounts receivable	47,941	54,321	102,262
Due from other funds	<u>0</u>	<u>24,321</u>	<u>24,321</u>
TOTAL CURRENT ASSETS	\$ 1,043,491	\$ 113,208	\$ 1,156,699
Restricted Assets	\$ 97,970	\$ 203,865	\$ 301,835
Property, plant and equipment:			
System assets	\$ 4,673,774	\$ 532,207	\$ 5,205,981
Less accumulated depreciation	<u>(2,475,256)</u>	<u>(31,718)</u>	<u>(2,506,974)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 2,198,518	\$ 500,489	\$ 2,699,007
TOTAL ASSETS	\$ 3,339,979	\$ 817,562	\$ 4,157,541
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 6,341	\$ 71	\$ 6,412
Accrued payroll expenses	7,073	863	7,936
Accrued interest	5,861	0	5,861
Due to other funds	19,543	0	19,543
Due to other governmental units	0	60,371	60,371
Current portion of long term debt	<u>5,000</u>	<u>0</u>	<u>5,000</u>
TOTAL CURRENT LIABILITIES	\$ 43,818	\$ 61,305	\$ 105,123
Long Term Debt - Bonds payable	\$ 516,000	\$ 0	\$ 516,000
TOTAL LIABILITIES	\$ 559,818	\$ 61,305	\$ 621,123
NET ASSETS			
Invested in capital assets - net of related debt	\$ 1,677,518	\$ 500,489	\$ 2,178,007
Restricted for debt service	43,392	0	43,392
Restricted for repairs and reconstruction	54,578	489,579	544,157
Unrestricted	<u>1,004,673</u>	<u>(233,811)</u>	<u>770,862</u>
TOTAL NET ASSETS	\$ <u>2,780,161</u>	\$ <u>756,257</u>	\$ <u>3,536,418</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2004

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
Charges for services:			
Metered sales and service charges	\$ 400,750	\$ 288,714	\$ 689,464
Taps, thaws and shutoffs	1,675	40	1,715
Late payment penalties	<u>3,755</u>	<u>5,609</u>	<u>9,364</u>
TOTAL OPERATING REVENUES	\$ 406,180	\$ 294,363	\$ 700,543
OPERATING EXPENSES			
Personal services	\$ 170,319	\$ 24,022	\$ 194,341
Contractual services	10,263	710	10,973
Utilities	41,478	880	42,358
Equipment rental	34,417	6,170	40,587
Supplies	11,989	2,259	14,248
Other services and charges	10,149	333	10,482
Depreciation	<u>178,621</u>	<u>12,642</u>	<u>191,263</u>
TOTAL OPERATING EXPENSES	\$ 457,236	\$ 47,016	\$ 504,252
NET OPERATING INCOME (LOSS)	\$ (51,056)	\$ 247,347	\$ 196,291
NON-OPERATING GAINS/LOSSES			
Interest earned	\$ 29,511	\$ 24,182	\$ 53,693
Interest expense	<u>(23,501)</u>	<u>0</u>	<u>(23,501)</u>
CHANGE IN NET ASSETS	\$ (45,046)	\$ 271,529	\$ 226,483
Net assets - beginning	<u>2,825,207</u>	<u>484,728</u>	<u>3,309,935</u>
NET ASSETS - ENDING	\$ <u>2,780,161</u>	\$ <u>756,257</u>	\$ <u>3,536,418</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2004

	WATER UTILITY	SEWER UTILITY	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 404,944	\$ 294,363	\$ 699,307
Payments to suppliers	(109,050)	(10,351)	(119,401)
Payments to or on behalf of employees	(166,488)	(24,022)	(190,510)
Internal activity-payments to other funds	<u>(72,063)</u>	<u>(686,080)</u>	<u>(758,143)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 57,343	\$ (426,090)	\$ (368,747)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (28,558)	\$ 0	\$ (28,558)
Purchases of capital assets	0	(53,024)	(53,024)
Reduction of funding restricted accounts	<u>(19,074)</u>	<u>422,259</u>	<u>403,185</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (47,632)	\$ 369,235	\$ 321,603
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>29,511</u>	\$ <u>24,182</u>	\$ <u>53,693</u>
NET INCREASE (DECREASE) IN CASH	\$ 39,222	\$ (32,673)	\$ 6,549
Cash and equivalents - beginning	<u>956,328</u>	<u>67,239</u>	<u>1,023,567</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>995,550</u>	\$ <u>34,566</u>	\$ <u>1,030,116</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (51,056)	\$ 247,347	\$ 196,291
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	178,621	12,642	191,263
Change in Assets and Liabilities			
Receivables - net	(1,236)	13,535	12,299
Due from other funds	0	(24,321)	(24,321)
Accounts payable	(754)	(10,567)	(11,321)
Accrued payroll expense	3,831	154	3,985
Due to other funds	0	(675,423)	(675,423)
Due to other governmental units	<u>(72,063)</u>	<u>10,543</u>	<u>(61,520)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>57,343</u>	\$ <u>(426,090)</u>	\$ <u>(368,747)</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	TRUST FUND TYPE		AGENCY FUND TYPE
	Police and Firemen's Pension Trust Fund	Retiree Insurance Trust Fund	Tax Collections
ASSETS			
Cash and equivalents	\$ 20,686	\$ 24,950	\$ 8,827
Investments	8,624,873	0	0
Due from other governmental units	<u>0</u>	<u>0</u>	<u>856</u>
TOTAL ASSETS	\$ 8,645,559	\$ 24,950	<u><u>9,683</u></u>
LIABILITIES			
Due to other funds	\$ 0	\$ 23,519	\$ 257
Due to other governmental units	0	0	856
Security deposits	0	0	8,570
Deferred revenue	<u>0</u>	<u>1,431</u>	<u>0</u>
TOTAL LIABILITIES	\$ <u>0</u>	\$ <u>24,950</u>	<u><u>9,683</u></u>
NET ASSETS			
Held in trust for pension benefits	\$ <u><u>8,645,559</u></u>		
Held in trust for retiree insurance benefits		\$ <u><u>0</u></u>	

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2004

		<u>Police and Firemen's Pension Trust Fund</u>	<u>Retiree Insurance Trust Fund</u>
ADDITIONS			
Contributions			
Tax collections	\$	127,139	\$ 0
Employer		0	142,019
Plan members		<u>56,101</u>	<u>33,063</u>
Total Contributions	\$	183,240	\$ 175,082
Investment Income			
Net appreciation (depreciation) in fair value of investments	\$	842,683	\$ 0
Interest and dividends		203,137	40
Less investment expense		<u>(53,702)</u>	<u>0</u>
Net Investment Income	\$	992,118	\$ 40
TOTAL ADDITIONS	\$	1,175,358	\$ 175,122
DEDUCTIONS			
Benefits paid	\$	340,846	\$ 175,122
Refund of contributions		169	0
Administrative expense		<u>14,227</u>	<u>0</u>
TOTAL DEDUCTIONS	\$	<u>355,242</u>	\$ <u>175,122</u>
NET INCREASE	\$	820,116	\$ 0
NET ASSETS HELD IN TRUST FOR PENSION OR RETIREE INSURANCE BENEFITS			
Beginning	\$	<u>7,825,443</u>	\$ <u>0</u>
ENDING	\$	<u><u>8,645,559</u></u>	\$ <u><u>0</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
COMPONENT UNIT
June 30, 2004

		<u>KINGSFORD HOUSING COMMISSION</u>
	ASSETS	
CURRENT ASSETS		
Cash and equivalents	\$	93,725
Accounts receivable		2,241
Investments		287,675
Prepaid expenses		10,826
Interprogram receivable		<u>2,034</u>
	TOTAL CURRENT ASSETS \$	396,501
NONCURRENT ASSETS		
Capital assets	\$	3,851,866
Less accumulated depreciation		<u>(2,731,147)</u>
	TOTAL NON CURRENT ASSETS \$	<u>1,120,719</u>
	TOTAL ASSETS \$	1,517,220
	LIABILITIES	
CURRENT LIABILITIES		
Accounts payable	\$	6,757
Accrued liabilities		39,601
Interprogram payable		<u>2,034</u>
	TOTAL CURRENT LIABILITIES \$	48,392
OTHER LIABILITIES	\$	<u>18,727</u>
	TOTAL LIABILITIES \$	67,119
	NET ASSETS	
Investment in capital assets, net of related debt	\$	1,120,719
Unrestricted net assets		<u>329,382</u>
	NET ASSETS \$	<u><u>1,450,101</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
COMPONENT UNIT
Year ended June 30, 2004

	<u>KINGSFORD HOUSING COMMISSION</u>
OPERATING REVENUES	
Tenant revenue	\$ 159,587
Program grants - subsidies	209,176
Other	<u>6,946</u>
TOTAL OPERATING REVENUES	\$ 375,709
OPERATING EXPENSES	
Administration	\$ 78,578
Tenant services	512
Utilities	38,514
Maintenance	108,025
General	24,341
Depreciation	<u>188,674</u>
TOTAL EXPENDITURES	<u>\$ 438,644</u>
OPERATING (LOSS)	\$ (62,935)
OTHER INCOME (EXPENSES)	
Interest income	\$ 6,796
(Loss) on sale of fixed assets	<u>(181)</u>
TOTAL OTHER INCOME (EXPENSES)	<u>\$ 6,615</u>
CHANGE IN NET ASSETS	\$ (56,320)
Net assets - beginning	<u>1,506,421</u>
NET ASSETS - ENDING	<u><u>\$ 1,450,101</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
COMPONENT UNIT
Year ended June 30, 2004

	KINGSFORD HOUSING COMMISSION
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 158,315
Receipts from grants and subsidies	209,176
Payments to suppliers	(104,514)
Payments to or on behalf of employees	(130,454)
Payment in lieu of taxes	(11,811)
Other receipts	<u>6,946</u>
 TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	 \$ 127,658
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	\$ <u>(118,452)</u>
 TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	 (118,452)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from investments	\$ 12,922
Investment income	<u>6,796</u>
 TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	 <u>19,718</u>
 NET INCREASE (DECREASE) IN CASH	 \$ 28,924
Cash and equivalents - beginning	<u>64,801</u>
 CASH AND EQUIVALENTS - ENDING	 <u><u>93,725</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (62,935)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	188,674
Change in Assets and Liabilities	
Receivables - net	(1,272)
Prepaid expenses	(329)
Other assets	(2,034)
Accounts payable	(468)
Accrued liabilities	2,361
Other liabilities	<u>3,661</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>127,658</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Kingsford (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City does not have any component units that are blended.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Kingsford, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Kingsford Housing Commission

The Kingsford Housing Commission (KHC), which was established in 1972 under criteria established for low income housing programs by the United States Department of Housing and Urban Development is governed by a board of commissioners appointed by the City Council. Its purpose is to provide low cost housing to elderly and low income families in the City of Kingsford, Michigan. The separately issued audited financial statements of the Kingsford Housing Commission are available at its offices at 1025 Woodward Avenue, Kingsford, MI 49802.

JOINTLY GOVERNED ORGANIZATIONS

Joint Sewage Authority

The Iron Mountain-Kingsford Sewage Treatment Authority (Authority), was formed in 1960 under provisions established by the joint cooperation of the Cities of Iron Mountain and Kingsford, Michigan. The Plant operates under a board of commissioners consisting of the city manager of each City as well as a member appointed by the respective mayors of the Cities.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City remits a portion of its metered sewer utility collections to the Authority. The City receives a collection stipend from the Authority of \$450 per month. The City also retains all sewer tap fees and service charges collected.

The audited financial statements of the Joint Sewage Authority are available at the Kingsford City Offices, temporarily located at 1500 Carter Drive, Kingsford, MI 49802.

Dickinson County Solid Waste Management Authority

The City of Kingsford along with other units of government in Dickinson County, Michigan jointly operate the Dickinson County Solid Waste Management Authority (DCSWMA). All of the financial operations of DCSWMA are recorded in the records of the County of Dickinson, Michigan. The City's appropriation to DCSWMA for the year was \$124,911.

The audit report for DCSWMA for the year ended June 30, 2004, is available at its offices at W-7702 US 2, Iron Mountain, MI 49801.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are due and payable at that time. All unpaid taxes levied July 1 become delinquent on the next August 15th.

Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end. Since it is felt that certain delinquent taxes are not fully collectible, a reserve for uncollectible taxes of \$19,480 has been recorded in the City's General Fund.

The Taxable Value of the 2003-2004 taxable property is \$104,851,748. The City's total millage was 17.613 mills for operations, 1.200 mills for police and fire pension and 1.356 mills for debt service yielding tax levies of \$1,846,754, \$125,822, and \$142,179 respectively. The tax collection revenues as recorded in the funds vary slightly because of revenue recognition policies explained above.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Small Cities Grant Loan Repayment Fund accounts for the loans to businesses and related repayment activities to enhance economic development.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Excess of Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

Fund/Activity	Actual	Budget	Variance	%
General/Insurance and benefits	248,877	243,620	5,257	2
General/Transfers Out	175,106	169,435	5,671	3
Major Streets/Traffic Service	7,994	0	7,994	~
Local Streets/Route Maintenance	97,702	94,225	3,477	4
Local Streets/Traffic Services	1,980	0	1,980	~
Local Streets/Winter Maintenance	84,530	75,100	9,430	13

NOTE B - CASH AND INVESTMENTS

The City maintains segregated cash and investment accounts which are specific to the fund to which they are available. Deposits and investments are stated at market in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31.

At year end, the carrying amount of the City's deposits (checking, savings, money market and certificates of deposit) was \$ 4,094,021. The City's deposits are in accordance with statutory authority. The bank balance that is uninsured and uncollateralized is \$3,742,622.

INVESTMENTS

Statutes of the State of Michigan authorize the City to invest in various bank deposit accounts and certain securities. There are no apparent provisions of the statutes requiring that the balances of such investments be partially or fully collateralized with pledged securities of the investee bank, etc.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE B - CASH AND INVESTMENTS (CONTINUED)

The City held such investments during the year, including those of the pension trust which is authorized to invest in various instruments in accordance with the provisions of Act 345 of the State of Michigan's Public Acts of 1937 establishing a municipally administered Police and Firemen's Retirement System.

As of June 30, 2004, the pension trust investments consisted of obligations of the United States Treasury, some domestic corporations and common stocks of U.S. corporations. These investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
Cash and equivalent	\$ 439,584	\$ 0	\$ 0
U.S. Treasury	2,222,681	0	0
Corporate bonds	638,683	0	0
Corporate stocks	<u>5,323,925</u>	<u>0</u>	<u>0</u>
TOTALS	\$ 8,624,873	\$ 0	\$ 0

NOTE C - PENSION PLANS

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTION

On December 1, 1978 the City adopted employees' Pension Plan B-2 of the state administered Municipal Employees' Retirement System for all eligible employees and elected participation pursuant to Member Contribution Program III, Benefits E and E-2 with F55 waiver. The plan is a state administered agent multiple-employer pension plan. Normal retirement benefits are paid employees retiring at age 60 with 10 or more years of service. The F55 waiver allows a full pension to be paid to retirees less than 60 years old if they have attained the age of 55 and have 15 or more years of credited service. The plan has now been changed to Plan B-3.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE C - PENSION PLANS (CONTINUED)

ACTUARIAL ACCRUED LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003.

GASB 25 INFORMATION

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 1,438,697
Terminated employees not yet receiving benefits	25,930
Non-vested terminated employees (refund of contribution)	449
Current employees:	
Accumulated employee contributions including allocated investment income	539,149
Employer financed	<u>1,876,204</u>

TOTAL ACTUARIAL ACCRUED LIABILITY \$ 3,880,429

Net Assets Available for benefits, at actuarial value 3,599,761

UNFUNDED ACTUARIAL ACCRUED LIABILITY \$ 280,668
=====

GASB 27 INFORMATION

Fiscal year beginning July 1, 2005

Annual required contribution \$ 56,532

POLICE AND FIREMEN'S PENSION PLAN

PLAN DESCRIPTION

On July 1, 1960 the City adopted a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 1937, as amended. The retirement system covers all full time employees of the City's public safety department. The Police and Firemen's Pension Plan (P&FPP) is a single employer defined benefit pension plan administered by the City of Kingsford Police and Firemen Pension Board. P&FPP provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries retiring after July 1, 1997 on each January 1 at the rate of 2.5% per year. The City Council has retained the right

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE C - PENSION PLANS (CONTINUED)

to establish and amend benefit provisions of the plan. The financial reports for P&FPP are issued as part of the City of Kingsford's annual financial reports and include plan financial statements and required supplementary disclosures.

ACCRUED ACTUARIAL LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2003.

GASB 25 INFORMATION

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 1,641,443
Terminated employees not yet receiving benefits	0
Current employees:	
Accumulated employee contributions including allocated investment income	726,130
Employer financed	<u>6,058,057</u>

TOTAL ACTUARIAL ACCRUED LIABILITY	\$ 8,425,630
-----------------------------------	--------------

Net Assets Available for benefits, at actuarial value	<u>9,627,282</u>
---	------------------

(OVERFUNDED) ACTUARIAL ACCRUED LIABILITY	<u><u>\$ (1,201,652)</u></u>
--	------------------------------

GASB 27 INFORMATION

Fiscal year beginning	July 1, 2005
-----------------------	--------------

Annual required contribution	\$ 141,968
------------------------------	------------

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE D - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables at June 30, 2004, follows:

Receivable	Payable	Amount
General	Major Street	\$ 40,689
General	Local Street	39,434
General	Land Sales	1,994
General	Water Utility	19,543
General	Tax Collection	257
General	Retiree Health	23,519
Sewer	General	24,321

NOTE E - FIXED ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Land	758,400	0	0	758,400
Buildings	5,024,509	0	0	5,024,509
Machinery and Equipment	1,475,325	142,269	0	1,617,594
Infrastructure	5,999,972	148,930	0	6,148,902
Subtotal	13,258,206	291,199	0	13,549,405
Less Accumulated Depreciation for				
Buildings	1,877,686	92,366	0	1,970,052
Machinery and Equipment	990,339	75,007	0	1,065,346
Infrastructure	1,720,032	243,924	0	1,963,956
Subtotal	4,588,057	411,297	0	4,999,354
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	8,670,149	120,098	0	8,550,051

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE E - FIXED ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Sewer System	479,183	53,024	0	532,207
Water System	4,673,774	0	0	4,673,774
Subtotal	5,152,957	53,024	0	5,205,981
Less Accumulated Depreciation for				
Sewer System	19,076	12,642	0	31,718
Water System	2,296,635	178,621	0	2,475,256
Subtotal	2,315,711	191,263	0	2,506,974
Business Type Activities Capital Total				
Capital Assets--Net of Depreciation	2,837,246	(138,239)		2,699,007

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	45,361
Public Safety	13,480
Public Works	61,257
Total Governmental Activities	120,098
Business-Type Activities	
Water	178,621
Sewer	12,642
Total Business-Type Activities	191,263

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE F - FIRST SERIES BOND OF KINGSFORD WATER SUPPLY SYSTEM REVENUE BOND

On July 18, 1995, the City of Kingsford issued serial revenue bonds in the amount of \$676,000 for improvements to its water supply system. A retirement schedule and a description of the bonds is below:

Payable Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest		
2004-2005	\$ 11,723	\$ 5,000	\$ 11,610	\$	28,333
2005-2006	11,610	10,000	11,385		32,995
2006-2007	11,385	10,000	11,160		32,545
2007-2008	11,160	10,000	10,935		32,095
2008-2009	10,935	10,000	10,710		31,645
2009+	148,455	476,000	137,745		762,200
TOTALS	\$ 205,268	\$ 521,000	\$ 193,545	\$	919,813

In 1995, the City completed a water system upgrade and expansion. The project was financed with revenue bonds. The bond was purchased in its entirety by the Rural Development Agency of the United States Department of Agriculture. This bond will be repaid with the revenues generated by charges to water customers. Principal repayments are due annually on each October 1, through 2034. Interest is paid semi-annually on October 1 and April 1 of each year at a rate of 4.5%.

NOTE G - UNLIMITED TAX GENERAL OBLIGATION BOND - PUBLIC WORKS BUILDING

The City issued an unlimited tax general obligation bond to the Rural Development Agency of the US Department of Agriculture. The proceeds are being used to construct a replacement Public Works facility for the City. The loan is due in annual installments as set forth in the Schedule of Debt and Interest on each March 1, through 2028 with interest payable at 4.75%. The cumulative debt service schedule is below:

Payable Fiscal Year	March 1		September 1		Total
	Interest	Principal	Interest		
2004-2005	\$ 53,381	\$ 40,000	\$ 53,381	\$	146,762
2005-2006	52,431	40,000	52,431		144,862
2006-2007	51,481	45,000	51,481		147,962
2007-2008	50,412	45,000	50,412		145,824
2008-2009	49,343	50,000	49,343		148,686
2009+	552,294	2,027,600	552,294		3,132,188
TOTALS	\$ 809,342	\$ 2,247,600	\$ 809,342	\$	3,866,284

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE G - UNLIMITED TAX GENERAL OBLIGATION BOND (CONTINUED)

The bond was purchased in its entirety by the Rural Development Agency of the US Department of Agriculture. This bond will be repaid with annual tax collections that will vary in rate to insure coverage of its annual debt responsibility. Principal repayments are due annually on each March 1, through 2028. Interest is paid semi-annually on March 1 and September 1 of each year at a rate of 4.75%.

NOTE H - COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has calculated a liability for sick, personal and vacation leave which has been earned but not taken by City employees.

For governmental funds, a portion of the liability for the vacation, sick and personal leave absences are recorded in applicable funds as earned and that were subsequently liquidated with "expendable and available assets". The total accrued vacation, sick and personal leave earned but not taken as of June 30, 2004, is \$83,026, \$312,385 and \$46,780 respectively. The total accrued sick leave that will be paid upon termination of employment to employees in accordance with bargaining unit contracts and City policies is \$37,819 as of June 30, 2004. For proprietary funds, the liabilities are recorded in the applicable funds as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of leave as follows:

Public Safety Department Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 800 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1977 in which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE H - COMPENSATED ABSENCES (continued)

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 36 - 168 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All employees except department heads must use their personal time accrual during the calendar year or forfeit the benefit. Department heads are granted four personal days at the beginning of each calendar year. All time must be taken prior to the February of the succeeding year or the benefit will be forfeited.

Public Works Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 100 days of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in which case they will be required to work until retirement or death in order to qualify for the payment of the accumulated benefits.

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are entitled to three personal leave days per calendar year. Such days are charged to accumulated sick time when taken. Department heads are entitled to four personal leave days per calendar year and such days are charged to accumulated sick time when taken.

All Other City Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 800 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE H - COMPENSATED ABSENCES (continued)

All Other City Employees (continued):

which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. Such days are charged to accumulated sick time when taken.

Department heads are granted four personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All personal leave days taken are charged to the employee's accumulated sick time.

NOTE I - RETIREES HOSPITAL AND MEDICAL TRUST FUND

Pursuant to Council resolution, the City has provided hospital and medical insurance coverage for qualifying retired employees since October 15, 1981 and has accounted for such transactions within the Retirees Hospital and Medical Trust Fund.

Retired employees that are 62 years of age or greater are entitled to purchase health insurance through the City's health plan with a substantial portion of the cost being paid by the City. Retired employees that are less than 62 year of age are entitled to purchase health insurance through the City's health plan with the employee bearing a substantial portion of the cost.

Because of the rising cost on insurance and more retirees being covered under the Trust Fund, the approved transfer from the general fund has required supplemental transfers, also from the general fund, with the cumulative transfer increasing by more than 21% over the prior year. The City has been making a general fund contribution annually to fund their portion of the liability. The 2003-2004 contribution was \$142,019. The City has not had an actuarial determination made of the expected future liability for this benefit. Consequently, the amount to be paid by the City in future years has not been recorded.

The retiree health benefits for the Public Safety Officers are paid directly through the pension plan. As such, the plan will absorb the Public Safety portion of the cost.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE J - SEWAGE DISPOSAL AGREEMENT

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by an ordinance which provides for the sewer rates, minimum monthly charges and a monthly collection fee for billing services. These rates can be adjusted periodically through ordinance amendments.

NOTE K - RISK MANAGEMENT

The City of Kingsford is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Kingsford maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 1,688,125	\$ 2,034,068	\$ 2,065,216	\$ 31,148
Resources (Inflows)				
Property taxes	1,877,275	1,877,275	1,897,842	20,567
Federal grants	0	0	7,560	7,560
State shared revenues and grants	686,700	674,700	671,123	(3,577)
Licenses and permits	0	0	157	157
Fines and forfeitures	13,750	13,750	20,547	6,797
Charges for services	108,900	108,900	94,872	(14,028)
Interest and rentals	424,290	417,290	413,680	(3,610)
Sale of property and supplies	0	0	42,516	42,516
Refunds and reimbursements	18,975	21,975	69,277	47,302
Other	0	0	5,997	5,997
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 4,818,015	\$ 5,147,958	\$ 5,288,787	\$ 140,829
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 25,000	\$ 24,770	\$ 21,568	\$ 3,202
City manager	95,550	90,065	89,823	242
Other administration	56,000	56,000	55,620	380
Elections	2,400	2,400	2,307	93
Assessor/Board of review	62,000	62,000	61,733	267
Clerk	105,000	105,000	100,258	4,742
Treasurer	70,000	70,000	66,201	3,799
City hall, property and grounds	135,000	125,000	85,863	39,137
Public Safety	1,410,585	1,410,585	1,301,363	109,222
Public Works				
Planning	1,500	1,250	115	1,135
Maintenance	373,595	368,210	319,486	48,724
Alleys	3,000	3,000	2,545	455
Sidewalks	8,500	8,500	7,066	1,434
Christmas decorations	5,720	5,470	2,350	3,120
Motor vehicle pool	135,000	135,000	133,446	1,554
Street supplies	38,000	38,000	37,000	1,000
Street lighting	47,000	47,000	46,277	723
Sanitation	252,425	252,425	251,365	1,060
Rubbish	68,500	68,500	68,291	209
Parks and Recreation	99,730	99,730	99,549	181
Insurance and Benefits	238,020	243,620	248,877	(5,257)
Leases and Rentals	0	0	401	(401)
Transfers to other funds	169,435	169,435	175,106	(5,671)
TOTAL CHARGES TO APPROPRIATIONS	\$ 3,401,960	\$ 3,385,960	\$ 3,176,610	\$ 209,350
BUDGETARY FUND BALANCE--ENDING	\$ 1,416,055	\$ 1,761,998	\$ 2,112,177	\$ 350,179

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 270,735	\$ 270,735	\$ 270,735	\$ 0
Resources (Inflows)				
State shared revenues	345,000	345,000	386,515	41,515
Interest earned	1,000	1,000	4,369	3,369
Other	0	0	0	0
Transfers from other funds	<u>114,285</u>	<u>114,285</u>	<u>0</u>	<u>(114,285)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 731,020	\$ 731,020	\$ 661,619	\$ (69,401)
Charges to Appropriations (Outflows)				
Construction	\$ 164,680	\$ 164,680	\$ 108,907	\$ 55,773
Route maintenance	96,060	96,060	85,993	10,067
Traffic services	0	0	7,994	(7,994)
Winter maintenance	120,430	120,430	119,058	1,372
Administration	<u>79,115</u>	<u>79,115</u>	<u>14,173</u>	<u>64,942</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>460,285</u>	\$ <u>460,285</u>	\$ <u>336,125</u>	\$ <u>124,160</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>270,735</u></u>	\$ <u><u>270,735</u></u>	\$ <u><u>325,494</u></u>	\$ <u><u>54,759</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
SMALL CITIES GRANT LOAN REPAYMENT FUND
Year ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance			\$ 176,043	\$ 176,043
Resources (Inflows)				
Principal repaid			56,489	56,489
Interest earned			<u>30,300</u>	<u>30,300</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	BUDGET NOT PREPARED	BUDGET NOT PREPARED	\$ 262,832	\$ 262,832
Charges to Appropriations (Outflows)				
General government			\$ <u>4,972</u>	\$ <u>(4,972)</u>
TOTAL CHARGES TO APPROPRIATIONS			\$ <u>4,972</u>	\$ <u>(4,972)</u>
BUDGETARY FUND BALANCE--ENDING			\$ <u><u>257,860</u></u>	\$ <u><u>257,860</u></u>

CITY OF KINGSFORD
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2004

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-01	3,355,184	3,378,071	22,887	99%	743,261	3%
31-Dec-02	3,420,325	3,400,020	(20,305)	101%	786,576	-
31-Dec-03	3,599,761	3,880,429	280,668	93%	810,886	35%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-01	41,418	100%
31-Dec-02	53,428	100%
31-Dec-03	53,838	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.16%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

CITY OF KINGSFORD
POLICE AND FIREMEN'S PENSION FUNDING AND STATISTICS
JUNE 30, 2004

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
30-Jun-01	9,105,391	6,594,505	(2,510,886)	138%	904,748	-
30-Jun-02	9,493,254	7,217,567	(2,275,687)	132%	946,831	-
30-Jun-03	9,627,282	8,425,630	(1,201,652)	114%	896,360	-

NOTE - 2003 INCLUDES POST-RETIREMENT HEALTH CARE INSURANCE COSTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
30-Jun-01	68,701	100%
30-Jun-02	86,976	100%
30-Jun-03	141,968	100%

NOTE - 2003 INCLUDES POST-RETIREMENT HEALTH CARE INSURANCE COSTS

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	INDIVIDUAL ENTRY AGE
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	7.00%
PROJECTED SALARY INCREASES*	5.2% - 8.5%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 3.5%
INFLATION	3%
COST OF LIVING ADJUSTMENT	2.50%
OTHER	1971 GROUP MORTALITY TABLE

ADDITIONAL
INFORMATION

CITY OF KINGSFORD
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENT FUNDS
Year ended June 30, 2004

	<u>SPECIAL REVENUES</u>	
	<u>LAND SALES, PURCHASES AND DEVELOPMENT</u>	<u>LOCAL STREETS</u>
Assets		
Cash and equivalents	\$ 9,587	\$ 32,700
Due from other governmental units	<u>0</u>	<u>22,831</u>
TOTAL ASSETS	\$ <u><u>9,587</u></u>	\$ <u><u>55,531</u></u>
Liabilities and Fund Equity		
Liabilities		
Accounts payable	\$ 1,440	\$ 894
Accrued payroll	0	3,113
Due to other funds	<u>1,994</u>	<u>39,434</u>
TOTAL LIABILITIES	\$ <u><u>3,434</u></u>	\$ <u><u>43,441</u></u>
Fund Balance		
Reserved	\$ 0	\$ 0
Designated	0	0
Unreserved, undesignated	<u>6,153</u>	<u>12,090</u>
TOTAL FUND EQUITY	\$ <u><u>6,153</u></u>	\$ <u><u>12,090</u></u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>9,587</u></u>	\$ <u><u>55,531</u></u>

<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	
1998 PUBLIC WORKS <u>DEBT SERVICE</u>	EQUIPMENT AND CAPITAL <u>IMPROVEMENTS</u>	TOTAL NON-MAJOR GOVERNMENTAL <u>FUNDS</u>
\$ 40,971 \$	61,942 \$	145,200
0	0	22,831
\$ 40,971 \$	61,942 \$	168,031
\$ 0 \$	5,200 \$	7,534
0	0	3,113
0	0	41,428
\$ 0 \$	5,200 \$	52,075
\$ 0 \$	0 \$	0
0	0	0
40,971	56,742	115,956
\$ 40,971 \$	56,742 \$	115,956
\$ 40,971 \$	61,942 \$	168,031

CITY OF KINGSFORD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENT FUNDS
Year ended June 30, 2004

	<u>SPECIAL REVENUES</u>	
	<u>LAND SALES, PURCHASES AND DEVELOPMENT</u>	<u>LOCAL STREETS</u>
Revenues		
Property taxes	\$ 0	\$ 0
Interest earned	162	584
Sales of property	6,500	0
Other	0	392
State shared revenues	<u>0</u>	<u>134,338</u>
TOTAL REVENUES	\$ 6,662	\$ 135,314
Expenditures		
General government	\$ 1,440	\$ 0
Public works	0	184,212
Debt service	0	0
Capital outlay	<u>50,000</u>	<u>3,573</u>
TOTAL EXPENDITURES	\$ <u>51,440</u>	\$ <u>187,785</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (44,778)	\$ (52,471)
Other Financing Sources (Uses)		
Transfer from other funds	\$ 49,800	\$ 1,786
Transfer to other funds	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ <u>49,800</u>	\$ <u>1,786</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 5,022	\$ (50,685)
Fund Balances - beginning	<u>1,131</u>	<u>62,775</u>
FUND BALANCE - ENDING	<u><u>6,153</u></u>	<u><u>12,090</u></u>

<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	
1998 PUBLIC WORKS <u>DEBT SERVICE</u>	EQUIPMENT AND CAPITAL <u>IMPROVEMENTS</u>	TOTAL NON-MAJOR GOVERNMENTAL <u>FUNDS</u>
\$ 143,681	\$ 0	\$ 143,681
1,255	793	2,794
0	0	6,500
0	0	392
<u>0</u>	<u>0</u>	<u>134,338</u>
\$ 144,936	\$ 793	\$ 287,705
\$ 0	\$ 0	\$ 1,440
0	0	184,212
143,423	0	143,423
<u>0</u>	<u>128,720</u>	<u>182,293</u>
\$ <u>143,423</u>	\$ <u>128,720</u>	\$ <u>511,368</u>
\$ 1,513	\$ (127,927)	\$ (223,663)
\$ 0	\$ 123,520	\$ 175,106
<u>0</u>	<u>0</u>	<u>0</u>
\$ <u>0</u>	\$ <u>123,520</u>	\$ <u>175,106</u>
\$ 1,513	\$ (4,407)	\$ (48,557)
<u>39,458</u>	<u>61,149</u>	<u>164,513</u>
\$ <u><u>40,971</u></u>	\$ <u><u>56,742</u></u>	\$ <u><u>115,956</u></u>

CITY OF KINGSFORD
WATER UTILITY FUND
BALANCE SHEET
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current Assets:		
Cash and equivalents	\$ 995,550	\$ 956,328
Accounts receivable	47,941	46,705
Due from other funds	0	0
TOTAL CURRENT ASSETS	\$ 1,043,491	\$ 1,003,033
Restricted Assets:		
Repair and reconstruction fund	\$ 54,578	\$ 37,390
Bond reserve account	43,392	41,506
TOTAL RESTRICTED ASSETS	\$ 97,970	\$ 78,896
Property, plant and equipment:		
Water system	\$ 4,673,774	\$ 4,673,774
Less accumulated depreciation	(2,475,256)	(2,296,635)
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 2,198,518	\$ 2,377,139
TOTAL ASSETS	\$ 3,339,979	\$ 3,459,068
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 6,341	\$ 7,095
Accrued payroll expenses	7,073	3,242
Accrued interest	5,861	5,918
Due to other funds	19,543	91,606
Current portion of long term debt	5,000	5,000
TOTAL CURRENT LIABILITIES	\$ 43,818	\$ 112,861
LONG TERM DEBT - Bonds payable	\$ 516,000	\$ 521,000
TOTAL LIABILITIES	\$ 559,818	\$ 633,861
FUND EQUITY		
Contributed capital:		
Federal government - capital grant	\$ 450,950	\$ 482,275
Municipality	1,615,392	1,615,392
Retained earnings:		
Reserved	97,970	78,896
Designated	305,000	190,150
Unreserved, undesignated	310,849	458,494
TOTAL FUND EQUITY	\$ 2,780,161	\$ 2,825,207
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,339,979	\$ 3,459,068

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL, BUDGET AND PRIOR YEAR
Years ended June 30, 2004 and 2003

	<u>2003-04</u>			<u>2002-03</u>
	<u>ACTUAL</u>	<u>AMENDED BUDGET</u>	<u>VARIANCE</u>	<u>ACTUAL</u>
OPERATING REVENUES				
Charges for services:				
Water sales	\$ 400,750	\$ 363,200	\$ 37,550	\$ 383,773
Taps, thaws and shutoffs	1,675	0	1,675	1,452
Late payment penalties	3,755	3,400	355	2,898
Other	0	0	0	0
TOTAL OPERATING REVENUES	\$ 406,180	\$ 366,600	\$ 39,580	\$ 388,123
OPERATING EXPENSES				
Source of supply	\$ 94,753	\$ 203,235	\$ 108,482	\$ 103,493
Distribution	152,745	260,695	107,950	163,553
Clerical and administrative	31,117	44,470	13,353	29,127
Depreciation	178,621	178,700	79	179,301
TOTAL OPERATING EXPENSES	\$ 457,236	\$ 687,100	\$ 229,864	\$ 475,474
NET OPERATING INCOME (LOSS)	\$ (51,056)	\$ (320,500)	\$ 269,444	\$ (87,351)
NON-OPERATING GAINS/LOSSES				
Interest earned	\$ 29,511	\$ 15,500	\$ 14,011	\$ 34,815
Interest expense	(23,501)	(23,558)	57	(24,343)
NET INCOME (LOSS)	\$ (45,046)	\$ (328,558)	\$ 283,512	\$ (76,879)
Add depreciation of fixed assets acquired by capital grants	31,325	0	31,325	31,325
INCREASE (DECREASE) IN RETAINED EARNINGS	\$ (13,721)	\$ (328,558)	\$ 314,837	\$ (45,554)
Retained earnings - beginning	727,540			773,094
RETAINED EARNINGS - ENDING	\$ 713,819			\$ 727,540

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF CASH FLOWS
Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 404,944	\$ 393,359
Payments to suppliers	(109,050)	(128,515)
Payments to or on behalf of employees	(166,488)	(165,652)
Internal activity-payments from other funds	<u>(72,063)</u>	<u>28,284</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES \$	57,343 \$	127,476
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (28,558)	\$ (60,087)
Purchases of capital assets	0	(17,357)
Funding of restricted accounts	<u>(19,074)</u>	<u>(9,372)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES \$	(47,632) \$	(86,816)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ 29,511	\$ 34,815
NET INCREASE (DECREASE) IN CASH \$	39,222 \$	75,475
Cash and equivalents - beginning	<u>956,328</u>	<u>880,853</u>
CASH AND EQUIVALENTS - ENDING \$	<u>995,550</u> \$	<u>956,328</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (51,056)	\$ (87,351)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	178,621	179,301
Change in Assets and Liabilities		
Receivables - net	(1,236)	5,235
Accounts payable	(754)	1,518
Accrued payroll expense	3,831	489
Due to other funds	<u>(72,063)</u>	<u>28,284</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES \$	<u>57,343</u> \$	<u>127,476</u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
LAND SALES, PURCHASE AND DEVELOPMENT FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 1,131	\$ 1,131	\$ 1,131	\$ 0
Resources (Inflows)				
Land sales	0	0	6,500	6,500
Interest earned	200	200	162	(38)
Transfers from other funds	<u>49,800</u>	<u>49,800</u>	<u>49,800</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 51,131	\$ 51,131	\$ 57,593	\$ 6,462
Charges to Appropriations (Outflows)				
Professional fees	\$ 35,000	\$ 35,000	\$ 1,440	\$ 33,560
Land acquisition	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>85,000</u>	\$ <u>85,000</u>	\$ <u>51,440</u>	\$ <u>33,560</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>(33,869)</u></u>	\$ <u><u>(33,869)</u></u>	\$ <u><u>6,153</u></u>	\$ <u><u>40,022</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 62,775	\$ 62,775	\$ 62,775	\$ 0
Resources (Inflows)				
State shared revenues	128,000	128,000	134,338	6,338
Interest earned	1,000	1,000	584	(416)
Other	0	0	392	392
Transfers from other funds	<u>79,890</u>	<u>79,890</u>	<u>1,786</u>	<u>(78,104)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 271,665	\$ 271,665	\$ 199,875	\$ (71,790)
Charges to Appropriations (Outflows)				
Construction	\$ 55,960	\$ 55,960	\$ 3,573	\$ 52,387
Route maintenance	94,225	94,225	97,702	(3,477)
Traffic services	0	0	1,980	(1,980)
Winter maintenance	75,100	75,100	84,530	(9,430)
Administration	<u>3,305</u>	<u>3,305</u>	<u>0</u>	<u>3,305</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>228,590</u>	\$ <u>228,590</u>	\$ <u>187,785</u>	\$ <u>40,805</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>43,075</u></u>	\$ <u><u>43,075</u></u>	\$ <u><u>12,090</u></u>	\$ <u><u>(30,985)</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
1998 PUBLIC WORKS DEBT SERVICE FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 39,458	\$ 39,458	\$ 39,458	\$ 0
Resources (Inflows)				
Property taxes	143,428	143,428	143,681	253
Interest earned	<u>0</u>	<u>0</u>	<u>1,255</u>	<u>1,255</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 182,886	\$ 182,886	\$ 184,394	\$ 1,508
Charges to Appropriations (Outflows)				
Debt service	\$ <u>108,500</u>	\$ <u>108,500</u>	\$ <u>143,423</u>	\$ <u>(34,923)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>108,500</u>	\$ <u>108,500</u>	\$ <u>143,423</u>	\$ <u>(34,923)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>74,386</u></u>	\$ <u><u>74,386</u></u>	\$ <u><u>40,971</u></u>	\$ <u><u>(33,415)</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
EQUIPMENT AND CAPITAL IMPROVEMENT FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 61,149	\$ 61,149	\$ 61,149	\$ 0
Resources (Inflows)				
Interest earned	1,200	1,200	793	(407)
Transfers from other funds	<u>124,300</u>	<u>124,300</u>	<u>123,520</u>	<u>(780)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 186,649	\$ 186,649	\$ 185,462	\$ (1,187)
Charges to Appropriations (Outflows)				
Capital outlay	\$ <u>166,500</u>	\$ <u>166,500</u>	\$ <u>128,720</u>	\$ <u>37,780</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>166,500</u>	\$ <u>166,500</u>	\$ <u>128,720</u>	\$ <u>37,780</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>20,149</u></u>	\$ <u><u>20,149</u></u>	\$ <u><u>56,742</u></u>	\$ <u><u>36,593</u></u>

SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council
City of Kingsford
Kingsford, MI 49802

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan (City) as of and for the year ended June 30, 2004, which collectively comprise the City of Kingsford, Michigan's basic financial statements and have issued my report thereon dated September 17, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be

detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated September 17, 2004.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

September 17, 2004

SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

Honorable Mayor and City Council
City of Kingsford
305 South Carpenter Avenue
Kingsford, MI 49802

In conjunction with the audit of the financial statements of the City of Kingsford as of and for the year ended June 30, 2004, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City of Kingsford's council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Each of the items included in last year's letter of comments and recommendations were satisfactorily resolved except the first item noted below:

1. **OBSERVATION** - The City Council action of several years ago regarding funding retiree health insurance is not adequate to meet the current obligation. The shortage in funding will continue to create a deficit in the fund which is prohibited under Michigan statute.

RECOMMENDATION - I recommend that the council review its previous action and either increase the funding level, decrease the obligation or some combination thereof.

At a minimum, I recommend that the Council rescind the previous action regarding the funding of the retiree health insurance. Such a rescission, would effectively remove the funding limitation that now exists. In addition, approval via the budget process or separate Council action should be approved to adequately fund the retiree health insurance liability.

2. **OBSERVATION** - During the year, the City received two actuarial reports on its Police and Firemen's Pension Fund. The first of the reports established funding levels for the retirement benefits while the other established funding levels for the retiree health benefits. These actuarial determinations were done in compliance with the requirement established by the pension plan and various outside third parties.

The reports reflect funding levels using various actuarial assumptions that do not agree in all cases. In addition, management questioned some of the actuarial assumptions as being overly conservative or not being in agreement with the current collective bargaining agreements.

RECOMMENDATION - A review of the actuarial assumptions should be undertaken in conjunction with the consulting actuaries. In addition, a single actuarial report establishing a funding amount covering both the retirement and health benefits should be requested.

The City requested a single actuarial report of the consulting actuaries after the end of the fiscal year under audit.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Darryl, Roger, Tony, Jan, Margaret, Linda and Santana for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.


Certified Public Accountant

September 17, 2004